Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20544

In the Matter of	**)**	
	)	
Federal-State Joint Board on	**)**	**CC Docket No. 96-45**
Universal Service	**)**	
Forward-Looking Mechanism	**)**	**CC Docket 97-160**
For High Cost Support fort	**)**	
Non-Rural LECs	**)**	

COMMENTS OF CINCINNATI BELL TELEPHONE COMPANY

I. INTRODUCTION

Cincinnati Bell Telephone Company ("CBT"), an independent, local exchange carrier, submits the following comments in response to the Commission's Further Notice of Proposed Rulemaking ("FNPRM")[1] in the above-captioned proceedings. The Commission's plan to adopt a mechanism to estimate forward-looking costs for calculating universal service support for rural, insular, and high cost areas has proceeded in two stages. On October 28, 1998, the Commission completed the first stage of this proceeding with its selection of the model platform for calculating forward-looking costs. In this FNPRM, the Commission is moving toward completion of the second stage by seeking comment on its proposed input values for the model. These inputs include items such as the cost of cables, switches, and other network components, in addition to various capital cost parameters.

[1] Further Notice of Proposed Rulemaking in CC Dockets 96-45 and 97-160, FCC 99-120, Released May 28, 1999.

II. THE FCC'S COST MODEL SHOULD NOT BE USED FOR SETTING ACCESS OR UNBUNDLED NETWORK ELEMENT RATES

CBT recognizes the Commission's desire to utilize a single set of input values to calculate universal service support should the Commission continue to use a cost model as the basis for determining universal service support.[2] A single set of input values decreases the verification costs of a process that has already become exceedingly complex. However, CBT is concerned that, once sanctioned, there will be a strong temptation to apply the results of this model in other contexts. For example, some parties may advocate using the model to develop prices for unbundled network elements or access charges. CBT would strongly object to such a use and requests the Commission to clarify that the model is only intended to provide benchmark results for use in determining high cost support. As the following comments clearly demonstrate, the Commission's proposed input values do not reflect CBT's costs. Further, CBT believes that the model is too complex, has no assurance that the logic of the model is correct and, given the use of a single set of input values, provides results that cannot accurately estimate a specific company's forward looking costs.

A. Company Specific Data Is Needed To Accurately Estimate Forward-Looking Costs

CBT has actively followed this proceeding as the Commission has progressed through the various issues related to calculating the cost of universal service support. Given the complexity of the cost models, the continual changes to the algorithms, and the extremely large number of variables, CBT is not yet in a position to validate the model with regard to CBT's costs. The complexity of the evaluation process is compounded by the fact that there are more than 1,200

[2] CBT notes that in its Comments in the FCC's Further Notice of Proposed Rulemaking, FCC 99-119, released May 28, 1999 in CC Docket Nos. 96-45 and 96-262 also filed today, CBT suggests that the Commission simply adopt the current level of universal service support as the fund size.

inputs, each of which must be evaluated in the context of the specific logic that the model applies and its appropriateness to CBT's cost structure. Because it has not been possible for CBT to assess the impact of each of the inputs, CBT limits its comments to the general use of this model.

CBT believes that the most appropriate calculation of forward-looking costs must be based on company specific data. No single set of input values can capture the wide variation in company costs and operating characteristics that exist across companies. The Commission's approach, once again, takes a one size fits all perspective, ignoring the unique characteristics of mid-size and smaller companies. The inappropriateness of a single set of input values for all companies is highlighted by the significant differences that CBT has identified below. CBT believes that these examples illustrate the unique operating characteristics of mid-size and smaller firms.

B. The Commission's Proposed Input Values Differ Significantly From Cincinnati Bell's Corresponding Input Values

As discussed above, CBT has identified several examples that illustrate the inappropriateness of applying "national average" values to CBT. Because CBT has not completed an exhaustive analysis of all proposed inputs, CBT's failure to comment on numerous inputs does not imply agreement.

As a first example, CBT is especially concerned about several references in the FNPRM regarding the "superior buying power" of the non-rural LECs. This claim is made by the Commission to justify various adjustments to reduce the Rural Utility Service (RUS) cost data in order to develop data that allegedly represents the non-rural LECs. For example, paragraph 79 of the FNPRM states:

> Based on data entered into the record in a proceeding before the Maine Public Utilities Commission, Bagel and Kennedy determined that Bell Atlantic's material costs for aerial copper cable are approximately 15.2 percent less than these costs for the RUS companies. We tentatively conclude that this figure represents a reasonable estimate of the difference in the material costs that non-rural LECs pay in comparison to those that the RUS companies pay.

Similar conclusions are made in paragraph 82 regarding the cost of underground copper cable and in paragraph 91 regarding fiber cable. In each case, the justification for the adjustment is based on a comparison of Bell Atlantic to the RUS companies. CBT cannot quantify the buying power of CBT versus Bell Atlantic or CBT versus the RUS companies. However, CBT emphasizes that Bell Atlantic is 61 times larger than CBT, as measured by each companies' number of access lines. (Source: USTA "Phone Facts", 1998) Clearly, the "superior buying power" that the Commission attributes to Bell Atlantic compared to the RUS companies applies equally well when comparing Bell Atlantic to CBT. Hence, applying a single adjustment factor based on Bell Atlantic's "superior buying power" to develop nationwide input values for cable will understate CBT's cost of cable.

A second example relates to the trenching costs for placing underground cable plant. Because CBT contracts its trenching to a third party, its trenching costs differ markedly from the Commission's proposed input values in two ways. First, CBT's trenching costs are fixed for all locations and do not depend on density band as defined in the Commission's model. Second, CBT's actual trenching costs exceed the proposed "Trench Per Foot" cost for all density bands applicable to CBT, with the largest difference exceeding 15 percent. Similarly, CBT subcontracts for the installation of all buried drop facilities. The structure of this contract differs from the approach taken in the model in that the contract bills for a minimum length of 150 feet

for each drop. This distance equals the drop length in the two smallest density bands in the model while the remaining density bands are significantly shorter. In addition, the cost per foot in CBT's contract exceeds the cost per foot proposed in the model. The end result is clearly an understatement of the cost for installing a drop. CBT has also identified differences in areas other than outside plant. For example, CBT's cost for a Trunk Port exceeds the proposed input value of $100 per end by at least 100 percent.

Finally, with respect to the capital cost parameters for the depreciation inputs to the model, CBT believes that the economic lives that are proposed by the Commission significantly overstate CBT's economic lives. For example, the Commission proposes an economic life of 25 years for underground copper cable. In contrast, CBT uses an economic life of 15 years for underground copper cable in its forward-looking cost studies. Even when CBT compares the lives proposed by the Commission with CBT's prescribed lives, there is an overstatement of the lives. The Commission proposes economic lives for 22 classes of plant. These lives exceed CBT's prescribed lives for 16 of these categories of plant with 8 of these 16 exceeding by at least 5 percent. For example, the Commission's proposed life for conduit exceeds CBT's prescribed life by 12.4 percent while the proposed life for operator systems exceeds CBT's prescribed life by over 25 percent. These examples illustrate that the Commission's proposed economic lives are generally too long and will result in an understatement of capital costs.

III. CONCLUSION

CBT believes that using company specific input values provide the best means to accurately estimate a company's forward-looking costs. The Commission's use of a single set of

input values ignores the real differences that exist for mid-size and smaller non-rural companies. While CBT recognizes the Commission's desire to use a nationwide set of input values for calculating universal service support, such an approach inappropriately understates CBT's forward-looking cost of service. The more accurate approach would be based on company specific models and inputs, rather than generalized national inputs derived from large company data. In any case, it is entirely inappropriate to use the model's results in other contexts such as determining prices for unbundled network elements.

Respectfully submitted,

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